

## **Lost and *win-back* customers: towards a theoretical framework of Customer Relationship Reactivation**

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### **Abstract**

The aim of this study is to explore dynamics of customer relationships in the post-dissolution phase. The specific challenges with which companies with high levels of *churn* and competitive pressure are faced are addressed. Focusing relationships between the service provider and its individual customers, a theoretical framework of Customer Relationship Reactivation (CRR) is proposed based on ending literature and equity theory. A mixed methodology is in progress with an exploratory firms *survey*, a case study and depth interviews. We believe it is possible to apply the theoretical framework in companies delivering a mix of goods and services. We describe and illustrate the value of the framework which includes key determinants such as customer characteristics, relationship characteristics, cognitive factors, emotional factors, reasons for switching and reactivation barriers.

**Keywords:** *Relationship Reactivation, Win-back, Switching, Customer Relationships, Relationship Marketing, Exploratory Survey and Case Study.*

**Track:** *Relationship Marketing.*

## 1. Introduction

Research has shown that there is a negative correlation between the number of "lost customers" and business income (Reichheld & Sasser, 1990). Customers who remain with a business, whether through retention or by defection and subsequent reactivation are potentially interesting when, in addition to contributing to revenue contribute to reduced costs by being less expensive (Ganesh, Arnold, and Reynolds, 2000), reduce the costs of attracting new customers through positive word of mouth referrals (Keaveney & Parthasarathy, 2001) and decrease the uncertainty of exchange through the experience accumulated during the relationship (Heide & Weiss, 1995). Customer *win-back* is an important part of a customer relationship management strategy. Stauss and Friege (1999) have found that the net return on investment from a new customer is 23% compared to a 214% return on investment from the reinstatement of a customer who has defected. Customer *win-back* focuses on the re-initiation and management of relationships with customers that have lapsed or defected from a firm (Thomas, Blattberg, and Fox, 2004).

The present research explores situations where relationship end is unplanned and unexpected and is initiated by the customer. Along with literature suggestions (Stauss & Seidel, 2008; Strandvik & Holmlund, 2000; Tähtinen & Halinen, 2002), we aim at investigating ended relationships and not just intentions. The research question is: Why do some ended relationships reactivate?

This paper is organized in four main sections. The section which follows this introduction discusses the problem and setting of our research project. Section 3 presents the literature review on relationship reactivation and proposes a holistic model for the understanding of the phenomenon. Section 4 resumes the chosen method.

## 2. Theoretical background and problem formulation

The threat of "*churn*"<sup>1</sup> is a growing concern of consumer-oriented businesses. A competitive environment, price and tariffs wars, increasingly educated consumers and, in many situations, the progressive deterioration of customer service explains why national and international organizations are dealing with customers who are increasingly more difficult and "promiscuous", i.e. willing to switch providers (Rojas, 2007). In mature markets, potential growth deceleration combined with the current economic environment and with the differential cost between keeping and winning a customer boosted the importance of managing *churn*. Havila and Wilkinson (2002) propose the analysis of ending relationships as a continuous and dynamic process, suggesting that the energy of the relationship that continues to exist between the parties after separation can awaken opportunities for reactivation of a dormant relationship. Yet, recovery is not sufficiently studied (Blömeke, Clement, and Bijmolt, *in press*; Homburg, Hoyer, and Stock, 2007; Salo, Tähtinen, and Ulkuniemi, 2009).

This study is interested, from a holistic perspective, in a dual analysis relating relationship dissolution and reactivation in B2C services. With few exceptions (Blömeke, et al., *in press*; Michalski, 2002; Pick, 2010; Roos, 1999), most studies have examined these processes in isolation, either in terms of the switching process (e. g. Bansal, Taylor, and James, 2005; Coulter & Ligas, 2000; Keaveney, 1995; Roos, Edvardsson, and Gustafsson, 2004; Stewart, 1998; Wieringa & Verhoef, 2007) or in terms of customer regain (e. g. Griffin & Lowenstein, 2001; Helfert, Herrmann, and Zellner, 2003; Homburg, et al., 2007; Krafft & Pick, 2007; Stauss & Friege, 1999; Thomas, et al., 2004; Tokman, Davis, and Lemon, 2007). On

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<sup>1</sup> Churn rate or defection rate measures, on percentage, the customer's proportion that defects the firm relatively to the total number of customers.

consumer services, some studies compared switchers and non-switchers (Ganesh, et al., 2000; Lopez, Redondo, and Olivan, 2006; Mittal & Lassar, 1998), while others, in another perspective, have focused on why customers do not switch service providers (Colgate & Lang, 2001; Patterson & Smith, 2003) or maintain relationships (Bendapudi & Berry, 1997). Overall there has been a scarce focus on why they come back after the relationship ended. This area remains unexplored (Bansal, et al., 2005; Homburg, et al., 2007; Stauss & Friege, 1999). Moreover, in recent years, CRR has assumed more importance as the concept of regain management complements relationship marketing theory by focusing loyal customers that, for some reason, ended their relationships with the firm (Hennig-Thurau & Hansen, 2000).

The existing research studied value determinants of the regain offer and price strategies in this offer (e. g. Thomas, et al., 2004; Tokman, et al., 2007) and did not relate them to the process of dissolution after elapse an, to the best of our knowledge, only a few studies have focused the key drivers or determinants of *win-back* success (Homburg, et al., 2007; Krafft & Pick, 2007; Tokman, et al., 2007).

### 3. Conceptual model

The paper proceeds with a presentation and discussion of the proposed model and related concepts. The term “switching” is currently used in services marketing and refers to endings where the supplier (or the customer) is substituted for another alternative, stressing one actor’s decisions and actions related to relationship ending as well as the actor’s formation (or strengthening) of another relationship and considering the consumer’s voluntary switching behavior. Here, relationship dissolution is the process that tends to end or extinguish an existing relationship between a customer and a service provider, considering that the final decision may either be consummated or inverted. CRR is conceptualized as the process that leads to a lost customer recovery. Reactivation or regain management includes customers that are inactive or lost whenever they either cease to purchase or explicitly terminate the relationship. Also, includes customers who give notice of termination but are legally still tied to the firm, these will be considered as lost, rather than current, because they decided to cease the relationship and took all steps necessary to do so (Stauss & Friege, 1999). CRR, in a dyadic perspective, looks to resume relations of interest for both parties which have ended.

A literature review provides us with some preliminary ideas about the processes of dissolution and reactivation. Trigger is any factor that alters the current state of the relationship in such a way that the switching process is initiated (Gardial, Flint, and Woodruff, 1996; Roos, 1999; Roos & Strandvik, 1997). Once the dissolution process is started, its subsequent path can be better described in terms of process, attributes, phases and types (Michalski, 2002). There are two alternative outcomes: a customer either ends or continues his relationship with the service provider. Rupture designates the end of the switching process. At this point exchange starts to decline and resource ties begin to weaken, still interaction may temporarily intensify to adjust the terms of decline in exchange activities (Halinen & Tähtinen, 2002). On this stage, called pos-dissolution, the customer reflects on the return possibility, sometimes in the future (Coulter & Ligas, 2000). After rupture happens, one can distinguish between customer relationships that can or cannot be reactivate – meaning that the implementation of customer recovery strategies is in some cases feasible (Michalski, 2002; Stauss & Friege, 1999). Roos (1999) enhances that managers should be aware of two customer groups with different expectations that require different training and diversified measures of damage repair: irrevocable-path and revocable-path customers.

*Win-back* determinants are determinants that make a customer patronize the switched-from firm, considering that the success of reactivation activities depends not only on their design but also on other elements.

### **3.1. Customer characteristics**

Customer characteristics as drivers of relationship revival performance are of fundamental relevance (Homburg, et al., 2007). Some studies concerned with *win-back* determinants suggest some customer characteristics as variety seeking (Homburg, et al., 2007; Krafft & Pick, 2007; Roos, 1999), perceived importance of the service (Tokman, et al., 2007), customer involvement and age (Homburg, et al., 2007), switching experience, customer expertise and perceived control over behavior (Krafft & Pick, 2007). Customers that regard offered services as being important to them are, at least, more likely to evaluate the *win-back* offer closely and realize the benefits it may offer (Tokman, et al., 2007). Revival performance is lower in the case of a strong variety-seeking motive and higher in the case of highly involved customers and it is interesting to find that among all the customer and relationship characteristics, age of the customer seems to have a particularly strong effect on revival performance (Homburg, et al., 2007).

### **3.2. Relationship characteristics**

Characteristics of the former relationship between customer and service provider have an impact on the end of that relationship. Social bonds than exist between actors and that last after exit may be transformed and transferred to other relationships providing opportunities for the same relationship to be reactivated at a later time on the basis of a continuum energy that lasts on the pos-dissolution relationship (Havila & Wilkinson, 2002). Literature also holds that the conditions under which a customer-provider relationship is developed are likely to play an important role in the maintenance of long-term relationships (Ganesan, 1994), influencing those relationships duration and the subsequent customers switching decisions in a decisive way (Reinartz & Kumar, 2003). Relationship characteristics (such as overall customer satisfaction with the relationship, duration, quality of the relationship and commitment) may influence *win-back* results (Homburg, et al., 2007; Krafft & Pick, 2007). Thomas et al. (2004) examine the effects of the relationship between the time elapsed since the last purchase and customer recapture likelihood and show, using quantitative research, that the probability of a firm reacquiring a customer is higher if the lapse duration is shorter and/or if the first tenure is longer.

### **3.3. Reasons for switching**

Interestingly, it appears that most of the literature on regain highlights the importance of understanding and exploring ex-client motives for leaving (Griffin & Lowenstein, 2001; Stauss & Friege, 1999; Tokman, et al., 2007) but does little to investigate them or just considers price and quality (e. g. Stauss & Seidel, 2008). Stauss and Friege (1999) suggest that effective reacquisition requires firms to track the defected customers reasons for switching, as the effectiveness of regain offers depends on identifying their reasons for leaving (Griffin & Lowenstein, 2001; Helfert, et al., 2003; Tokman, et al., 2007). Based on research focus frequency, literature suggests that the most relevant reason(s) for switching are price perceptions (12 studies), quality (11 studies), alternatives/competition (11 studies), service failure and recovery (9 studies), inconvenience (8 studies), (dis)satisfaction (7 studies), trust (7 studies), commitment (5 studies), involuntary switching (5 studies), switching costs (4 studies) and service policy and personnel (4 studies). Besides knowing the reasons and origin of switching, literature (Homburg, et al., 2007; Krafft & Pick, 2007) suggests, according to the attribution theory (Weiner, 2000), the study of customer's attribution for defection in terms of locus, stability and controllability. For instance, the more

a person attributes the reason for failures to its own, the more this person is willing to purchase again at the supplier (Richins, 1983) as if a customer attributes his/her defection to the supplier, the intention to recommend the firm is lower (Pick, 2010).

### **3.4. Cognitive factors**

Homburg et al. (2007) suggest that applying equity theory is a useful approach for understanding customer reactivation in a way that distributive, procedural and interactional justice are to be considered. The way dissolution occurs seems to influence *win-back* activities and results. Some researchers emphasize the importance of the type of communication strategies (direct or indirect) used during the dissolution process as having implications on the (ir)revocability of the ending decision (Giller & Matear, 2001; Pressey & Mathews, 2003). Helm (1998, cit in Michalski, 2002b) point some significant dissolution attributes, namely: directly or indirectly articulated dissatisfaction of the customer with a firm's products/services, very strong emotions, complaints, efforts at holding a dialog or negative worth-of-mouth communication with third parties. Those may influence negatively the reactivation process.

About reactivation influencing drivers, Bolton, Kannan e Bramlett (2000) conclude that a price gain (decrease in price) has a significant impact on repatronage, but a price loss (a price increase) does not. But is it just a question of money and financial incentives? Essential elements of regain actions are the customer specific dialogue and the related customer-specific regain offer, as long as the customer value is previously considered (Stauss & Friege, 1999). Price (Thomas, et al., 2004) and *win-back* offer worth (Homburg, et al., 2007; Tokman, et al., 2007) are considered relevant for reactivation success. Moreover, Sieben (2002, cit in Krafft and Pick, 2007) points out that the quality of the recovery process, the offer and interaction will have a direct impact on customers satisfaction with the recovery process. Homburg et al. (2007) state that the perceptions of equity play a pivotal role in explaining the success of revival efforts. According to them a perception that the offer is fair (distributive justice) has a significant influence on revival-specific customer satisfaction which, in turn, strongly affects revival performance.

### **3.5. Emotional factors**

The strength of the reaction refers to the "*customer's attitudes towards returning and their activities (e. g. worth-of-mouth behavior) after exiting*" (Roos & Strandvik, 1997: 7). Roos e Strandvik (1997) suggest that a customer that shows a weak reaction may reconsider the exit decision while a customer exhibiting a strong reaction (has strong opinions about not returning and may be engaged in negative word-of-mouth) probably won't return. Roos (1999) confirms that strong emotions and reactions are associated with irrevocable switching decisions, while weak emotions are associated with revocable switching paths. Concerning repurchase behavior, Dick e Basu (1994) had already suggested that emotions have more importance than cognitive evaluation does.

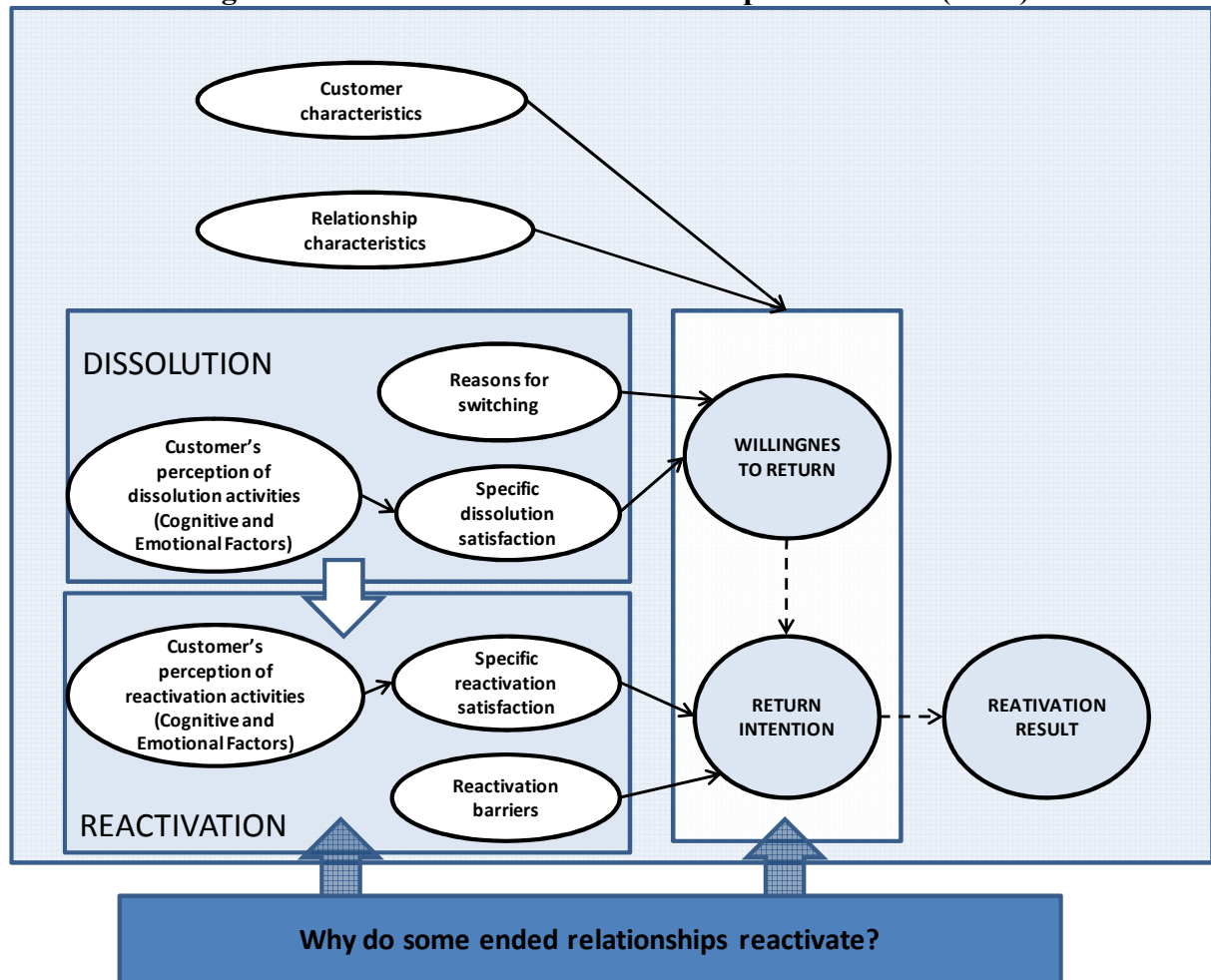
### **3.6. Reactivation barriers**

Translating the concept of switching cost into reactivation barriers (e.g. time, effort and cancelling of new relationship) one can expect that customers that terminate a contract experience some kind of costs when rebuilding the former relationship (Krafft & Pick, 2007). Sacrifices made in respect of reactivation may be measured in terms of alternatives attractiveness (Krafft & Pick, 2007). Moreover, it is important to recognize that, in the

services context, customers have prior experiences that may influence their perceptions of the *win-back* offer and their intentions to switch-back to their original provider (Tokman, et al., 2007). Tokman et al. (2007) enhance that social capital (implicit within the customer's past experience) plays an important role on the customers return intentions. In those cases where customers feel high levels of gratitude, the assessment of service benefits provided by the *win-back* offer may play a lesser role in forming an intention to switch-back.

An illustration of the proposed conceptual framework is presented in Figure 1.

**Figure 1 - Model of customer relationship reactivation (CRR)**



#### 4. Research method and results

Our model was investigated by means of different sources. As a mixed method approach, it was a two-phase project beginning with a quantitative phase, where the analysis of the data and its results were used to identify participants for qualitative data collection in a follow-up phase (Creswell, 2009). Quantitative and qualitative data are connected during the phases of research, yet a predominantly explanatory qualitative methodology is adopted following a case study approach and using multiple sources of empirical evidence.

In October 2011, an exploratory survey was conducted on the portugueses biggest firms (n=42) with commercial, marketing and other managers. This procedure does not conflict with the case study methodology since data diversity and triangulation strengthens constructs and hypotheses (Eisenhardt, 1989). Results suggest that services B2C firms have higher levels of *churn*, yet B2B firms offering tangibles are working ending and *win-back* activities on a

higher level. This probably happens because *win-back* activities are particularly relevant when the terminated relationships involve important customers as Homburg et al. (2007) defend. In general, as Griffin and Lowenstein (2001) found on their study, most companies are not informed about customer loss and do not have strong *win-back* policies, programs and monitoring systems. Our *survey* have some interesting results, namely: 47,4% did not have a system for identifying high- risk customers, 26,3% said they did not conduct defection interviews or other action and 13,2% could not identify their company's annual customer loss. 94,3% of the respondents said they know the reasons for switching and the most important were related to competition and to the firm's offer. The highest *churn* rates are on automobile, telecommunications, information technologies, retail, food and insurance sectors. On reactivation themes, 34,3% did not know potential *win-back* customers numbers and most companies doesn't identify (51,4%) or segment (42,9%) customers for *win-back* purposes. About *win-back* rates<sup>2</sup> 37,1% didn't answer arguing that they did control that process or was confidential. Still most companies had *win-back* rates until 19%.

Based on the literature review and the firm's *survey* results, we selected a service industry, with high *churn* and with reactivation practices, telecommunication services. With moderate contact, semi-customized and non-personal service in a market that is highly competitive and transparent this set seems adequate for further research. Were included business units of contractual and non-contractual nature (mobile telecommunications, mobile internet and fixed telephone). The qualitative study includes in dept-interviews with key informants (responsible for retention and customer service departments) and with customers with the purpose of knowing the influencing determinants and the complexity of the CRR process. In interviews with experts, we first questioned them regard to dissolution aspects, then about *win-back* activities and finally about customers profile and relationship characteristics. Interviews are being done and the analysis is due to be concluded in January 2012.

To sum up, this paper aimed broadly at describing our research-in-progress, and positioning it in related conceptual and research areas. Since there is so little work on the field of consumer services about relationship reactivation, our study holds the potential to produce new and interesting contributions to the knowledge built until now.

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<sup>2</sup> *Win-back* rate measures, on percentage, the customer's proportion that returns relatively to the total number of customers approached for that purpose.

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